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FISCAL IMPACT STATEMENT

LS 7006 | **NOTE PREPARED:** Jan 18, 2007
BILL NUMBER: SB 406 | **BILL AMENDED:**

SUBJECT: Tax abatement corrections.

FIRST AUTHOR: Sen. Young R Michael | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: ___ **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill provides a procedure for the various types of property tax abatement to correct an erroneous understatement of an assessed value deduction by the application of a separate deduction after the regular abatement schedule expires.

Effective Date: July 1, 2007.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this proposal, subject to appropriation, annual state PTRC and Homestead payments could vary. The amount of the increase/decrease would depend on the amount of the error. PTRC and homestead credits are paid from the Property Tax Replacement Fund.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. During the abatement period, if an error caused the tax base to be higher than it should have been, then payments to these funds will be correspondingly higher. After the abatement period ends, and the tax base is adjusted to compensate the taxpayer for the original error, then payments to these funds may be reduced. The amount will depend on the amount of the reduction in the tax base.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). Under this proposal, if the county auditor has made an error in computing abatement deductions, homestead credits, if applicable, could vary. This would vary the amount of taxes to be distributed to civil taxing units as certified shares.

Explanation of Local Revenues: Under current law, real property under development, and new manufacturing, research and development, and logistic equipment in an economic revitalization area, may qualify for property tax abatements. The abatement deduction for real property AV would equal the increase in AV due to the development multiplied by a percentage according to an abatement schedule; the abatement deduction for personal or distributable property would equal the AV of that property multiplied by a percentage according to the abatement schedule. The abatement schedule is from one to ten years. To obtain the abatement the taxpayer would file a deduction application with the county auditor who may approve, deny, or alter the amount claimed after considering the township assessor's recommendation. The county auditor's action may be appealed.

Due to an error on the auditor’s part, a taxpayer could be granted a smaller deduction than to which the property is entitled. This could happen over one or more years in the abatement period thereby increasing the property’s assessed value for the years in question. If the error is discovered and corrected during the abatement period it could further reduce the assessed value in the year it was corrected. For example, according to the abatement schedule, a taxpayer could be entitled to a 100% deduction of AV in year one of the abatement period, and 50% reduction in year two. The county auditor could have granted the taxpayer only a 50% reduction in year one creating a 50% error. If the error is corrected in year two, then the taxpayer’s deduction in this year will be 100% of AV instead of 50%.

Abatements reduce total AV. Applying the correction in year two may cause a further reduction in total AV leading to a much greater and unexpected shift of the tax burden from abated taxpayers to all taxpayers via an increased tax rate. This proposal seeks to delay the adjustment in the assessed value of the property in question until the first assessment period after the regular abatement schedule ends. In this example, if the property had a five year abatement schedule, the 50% error in year one’s deduction would be corrected in year six’s assessment. If the amount of the deduction is greater than the property’s current assessed value, the difference can be carried over to subsequent assessment periods until it is eliminated. If the error occurred over several assessment periods, the adjustment would be phased in over several assessment periods. As a result, tax rates in the years after the abatement period can be gradually increased and the amount of the tax shift to taxpayers not receiving the deduction minimized. The actual amount of the tax shift under this proposal is indeterminable.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County auditors.

Information Sources:

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